

Message Text

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ACTION EUR-25

INFO OCT-01 ISO-00 EURE-00 AID-20 CEA-02 CIAE-00 COME-00

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FM AMEMBASSY OSLO

TO SECSTATE WASHDC PRIORITY 7398

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY STOCKHOLM

AMEMBASSY COPENHAGEN

AMEMBASSY HELSINKI

USMISSION EC BRUSSELS

USMISSION OECD PARIS

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E.O. 11652: N/A

TAGS: EFIN, NO

SUBJ: REVALUATION OF NORWEGIAN KRONER

REF: OSLO 4158

SUMMARY: NORWAY REVALUED KRONER UPWARDS 5 PERCENT ON NOVEMBER 15 AS MOVE TO COMBAT INFLATION WHICH FORECAST TO RISE NEXT YEAR FROM CURRENT 7-8 PERCENT RANGE TO 10-12 PERCENT. REVALUATION FOLLOWED SPECULATION ON FOREIGN EXCHANGE MARKET ESPECIALLY IN FORWARD TRANSACTIONS IN OSLO AND WEST GERMANY WHICH WAS TRIGGERED BY NORWEGIAN TV COMMENTARY THAT REVALUATION A DISTINCT POSSIBILITY. FIVE PERCENT IS CONSIDERED MINIMAL. END SUMMARY.

1. GOVERNMENT CLOSED NORWEGIAN FOREIGN EXCHANGE OFFICES NOVEMBER 15 AND ANNOUNCED 5 PERCENT UPWARD REVALUATION THAT EVENING.

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EXCHANGES ARE OPEN TODAY NOVEMBER 16 WITH INITIAL QUOTATION OF

NKR 5.40 TO DOLS 1.00. ACTION FOLLOWED TOTAL INTERVENTION IN WEST GERMANY AND NORWAY OF 411 MILLION KRONER AS DEUTSCHEMARK FELL TO ITS INTERVENTION POINT AGAINST THE KRONER. NORWEGIAN MONETARY AUTHORITIES SAY FORWARD MARKET ACTION FAR GREATER--SO GREAT THAT IT LED TO QTE BREAKDOWN UNQTE OF MARKET.

2. CURRENCY SPECULATION MAY HAVE BEEN TRIGGERED BY A REMARK SEVERAL DAYS AGO BY A LEADING LABOR PARTY ECONOMIC COMMENTATOR ON NORWEGIAN TELEVISION THAT UPWARD REVALUATION OF THE NORWEGIAN KRONER WAS A DISTINCT POSSIBILITY IN THE PRESENT INFLATIONARY SITUATION IN NORWAY. THIS LED TO QUESTIONS IN THE NORWEGIAN PARLIAMENT DURING THE DEBATE ON NORWAY'S BUDGET NOVEMBER 14. NORWEGIAN SHIPOWNERS WHO MAINTAIN LARGE FOREIGN EXCHANGE HOLDINGS ABROAD ARE UNDERSTOOD TO HAVE HEDGED AGAINST REVALUATION BY PURCHASING KRONER.

3. THE NORWEGIAN GOVERNMENT IS BELIEVED TO HAVE BEEN CONSIDERING THE POSSIBILITY OF UPWARD REVALUATION TO COMBAT INFLATION FOR SOME TIME. A RECENT SURVEY IS UNDERSTOOD TO HAVE INDICATED THAT THE RATE OF INFLATION WILL ACCELERATE NEXT YEAR TO 10-12 PERCENT COMPARED TO 7-8 PERCENT THIS YEAR AND IN 1972. MUCH OF THIS FORECAST ACCELERATION IN INFLATION IS ATTRIBUTED TO THE EXPECTED GROWTH IN NORWAY'S NEW OIL INDUSTRY WHICH MUST BE FITTED INTO AN ALREADY BOOMING ECONOMY. THERE HAVE BEEN NO INCREASES IN THE REAL DISPOSABLE INCOME OF THE NORWEGIAN WORKERS FOR THE LAST TWO YEARS, AND THE GOVERNMENT IS VERY CONCERNED THAT, UNLESS THE INFLATIONARY SPIRAL IS REDUCED, WAGE INCREASES OF 15 PERCENT OR MORE WILL BE DEMANDED DURING THE WAGE NEGOTIATIONS NEXT SPRING INVOLVING MOST NORWEGIAN WORKERS. A FIRST STEP WAS TAKEN IN THE LABOR GOVERNMENT'S BUDGETARY PROPOSALS (SEE OSLO 4158) WHICH WERE DESIGNED TO INCREASE LOWER AND MIDDLE INCOMES BY CUTTING INCOME TAXES ON THOSE BRACKETS. THE GOVERNMENT IS UNDERSTOOD TO BE CONSIDERING FURTHER STEPS, INCLUDING A FREEZE ON PROFITS OF IMPORTERS. THERE IS ALSO SOME POSSIBILITY OF FURTHER REDUCTIONS IN GOVERNMENT SPENDING, ALTHOUGH THEY ARE LIKELY TO BE MINOR. INTEREST RATES, WHICH NOW RUN BETWEEN 7 AND 8 PERCENT (THE BANK RATE IS 4 1/2 PERCENT), HAVE TRADITIONALLY BEEN KEPT LOW AND ARE LIKELY TO CONTINUE TO PLAY NO MORE THAN A MARGINAL ROLE IN COMING INFLATION.

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4. THE 5 PERCENT UPWARD REVALUATION IS CLOSE TO THE LOWER END OF THE 4 TO 10 PERCENT RANGE BELIEVED TO HAVE BEEN CONSIDERED. ANYTHING MUCH LESS WAS CONSIDERED MEANINGLESS AND AS INVITING SPECULATION THAT FURTHER SMALL INCREASES MIGHT FOLLOW. (NORWEGIAN AUTHORITIES RECOGNIZE THAT IT WILL BE VERY DIFFICULT AND EVEN DANGEROUS TO MAKE FURTHER SMALL INCREASES IN THE NEAR FUTURE IF 5 PERCENT INCREASE PROVES INADEQUATE).

5. IT IS ESTIMATED BY A NORWEGIAN EXPERT COMMITTEE THAT A FIVE PERCENT INCREASE COULD REDUCE THE COST OF LIVING INDEX BY APPROXIMATELY ONE AND A HALF PERCENT. FINANCE MINISTER KLEPPE CLAIMS TWO AND A HALF PERCENT, BUT THIS APPEARS HIGH AND EMBASSY IS INCLINED TO AGREE WITH MINISTER OF COMMERCE AND SHIPPING EVENSEN WHO TOLD ME INFORMALLY AND CONFIDENTIALLY HE BELIEVES THAT EFFECT WILL BE MERELY TO HOLD DOWN PRICE INCREASES.) IMPORTS REPRESENT 40 PERCENT OF NORWEGIAN GNP.

6. FLOATING WAS APPARENTLY NEVER SERIOUSLY CONSIDERED BECAUSE OF (1) BUILT IN NORWEGIAN PREFERENCES FOR FIXED RATES; (2) FEELING THAT, SINCE SOME 50 PERCENT OF NORWAY'S TWO-WAY TRADE IS WITH EC, NORWAY SHOULD CONTINUE FIXED PARITIES WITH EC CURRENCIES AND FLUCTUATE WITHIN THE SNAKE; AND (3) BELIEF THAT NORWEGIAN SHIPPING, WHICH IS VITAL TO NORWAY'S FOREIGN EXCHANGE EARNINGS, IS BEST SERVED BY FIXED RATES BECAUSE OF LONG-TERM NATURE OF CHARTERS AND SHIP CONSTRUCTION CONTRACTS PLACED ABROAD.

7. THE REVALUATION OF THE KRONER WAS FACILITATED BY NORWAY'S CURRENT FAVORABLE BALANCE OF PAYMENTS POSITION AND RECORD HIGH NET RESERVE HOLDINGS. NET OUTFLOWS RESULTING FROM DEVELOPMENT OF NORWAY'S OFFSHORE OIL ARE EXPECTED IN 1974 AND 1975, BUT BY 1976 OIL INCOME IS EXPECTED TO BRING A STRONG PAYMENTS SURPLUS.

8. THE INCREASE WAS VEHEMENTLY OPPOSED BY SHIPPING INTERESTS AND EXPORTERS, ESPECIALLY PULP AND PAPER MANUFACTURERS. (NORWEGIAN PULP AND PAPER COMPANIES HAVE ONLY RECENTLY RETURNED TO PROFITABILITY AS A RESULT OF HIGH WORLD MARKET PRICES.)

9. NORWEGIAN MONETARY AUTHORITIES HAVE ALSO
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SUGGESTED IN INFORMAL CONVERSATIONS WITH THE EMBASSY THAT SWEDEN AND DENMARK MAY HAVE TO REVALUE THEIR CURRENCIES UPWARD FOR THE SAME REASONS AS NORWAY.

10. TEXT OF NORWEGIAN ANNOUNCEMENT OF REVALUATION
WILL BE TRANSMITTED BY SEPTTEL.
BYRNE

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